

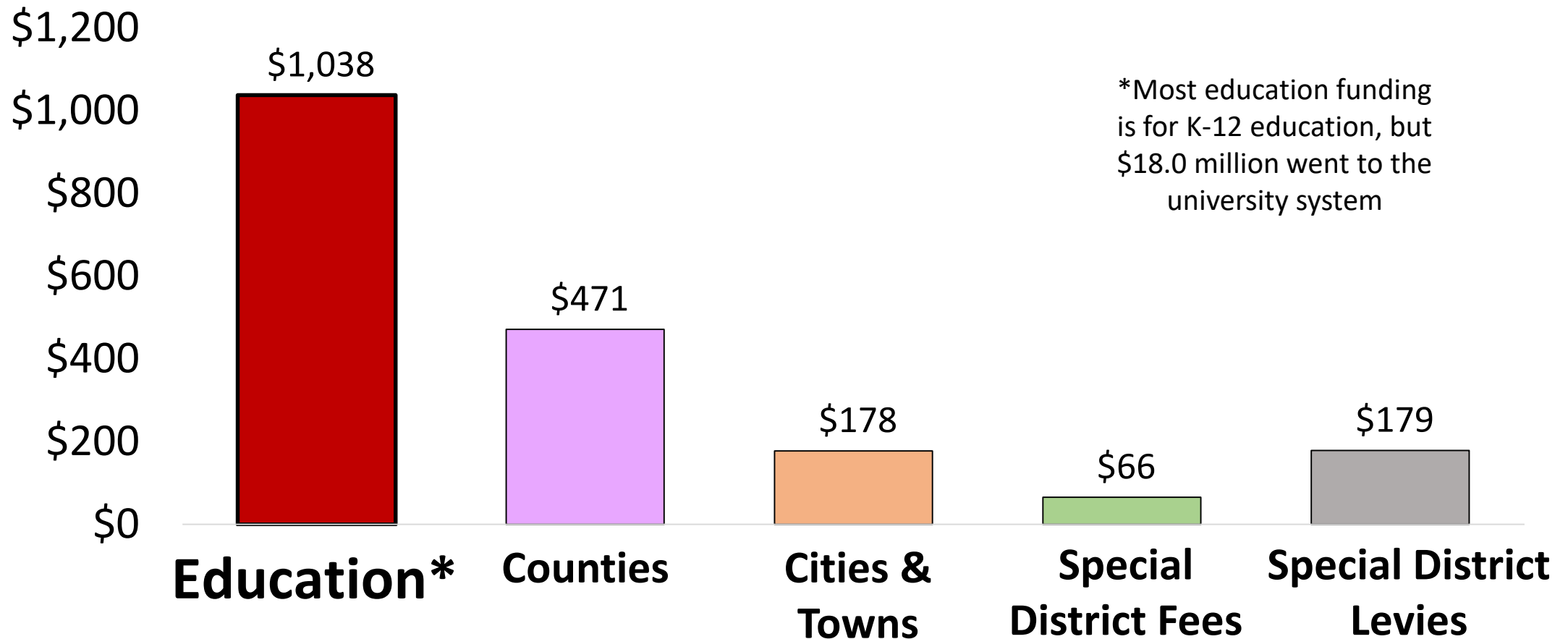
School Property Taxes in Montana

Financial Modernization and Risk Analysis (MARA) Committee

April 27, 2020

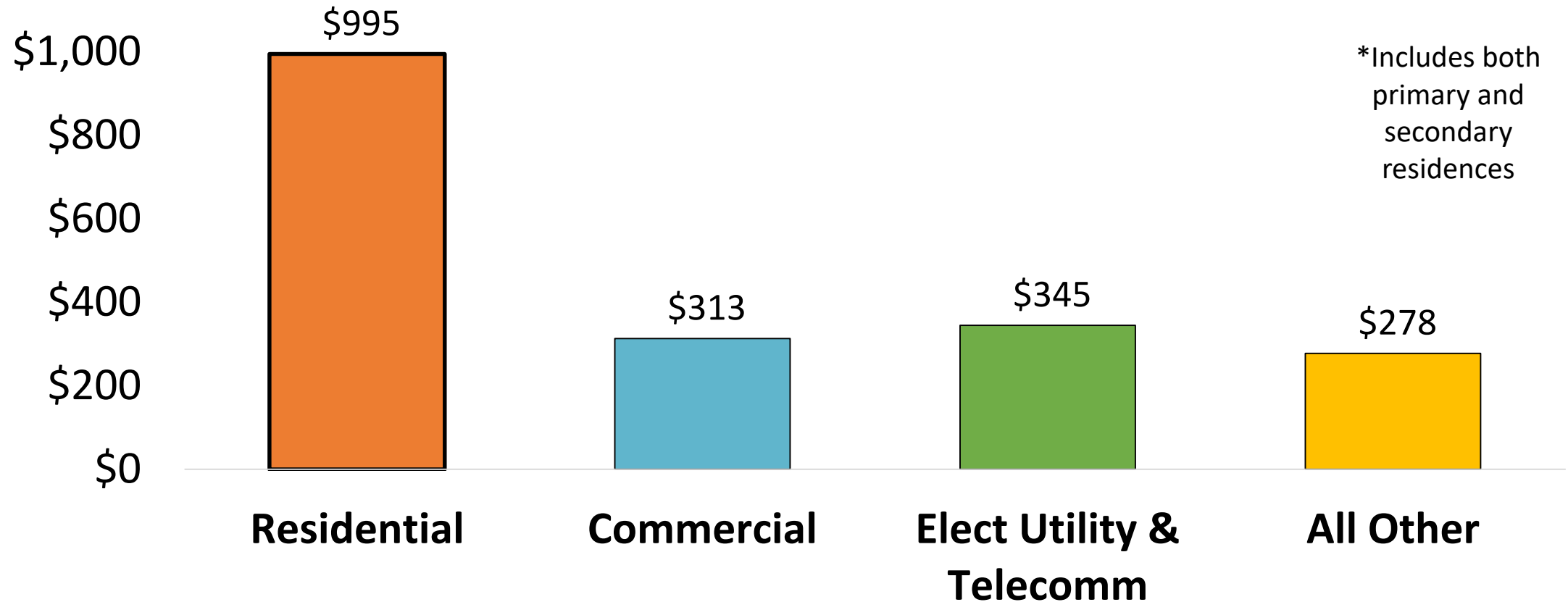
Where Property Taxes Go

The total amount of **property taxes levied** in Montana in TY 2018 was \$1.9 billion. The majority of property taxes are used to fund education. *Dollars are in millions.*



Where Property Taxes Come From

The total amount of **property taxes levied** in Montana in TY 2018 was \$1.9 billion. The majority of property taxes came from class 4 residential property*. *Dollars are in millions.*



How Property Taxes are Calculated

- Property Taxes Levied = $\underbrace{\text{Market Value} \times \text{Tax Rate}}_{\text{Taxable Value}} \times \text{Total Mills}$

For example, a home with \$250,000 value at 500 mills:

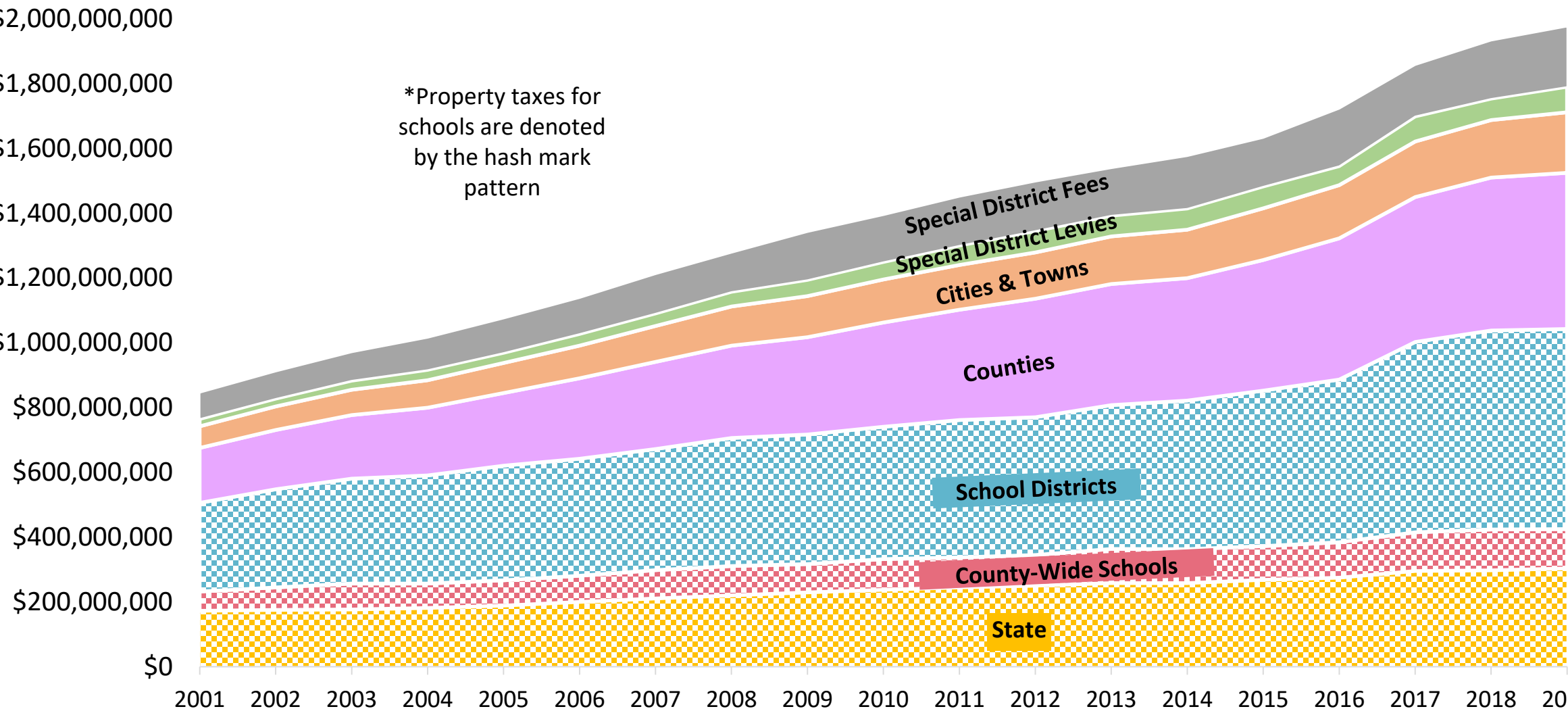
- Taxable Value = $\text{Market Value} \times \text{Tax Rate} = \$250,000 \times 1.35\% = \$3,375$
- Value of One Mill = $\text{Taxable Value} \times \frac{1}{1000} = \$3,375 \times \frac{1}{1000} = \3.375
- Property Tax Bill = $\text{Value of 1 Mill} \times \# \text{ of Mills} = \$3.375 \times 500 = \$1,687.50$

Growth in Property Taxes Collected by Entity

Compound Annual Growth Rate TY 2001 - TY 2019	
Entity	Growth Rate
State	3.170%
County-wide Schools	4.102%
School Districts	4.629%
Counties	5.971%
Cities	5.898%
Special Dist Levies	7.067%
Special Dist Fees	4.736%

Overall Compound Annual Growth Rate for Property Taxes - 4.829%

Growth in **property taxes collected** since TY 2001 is a combination of growth in property taxes paid to local governments and to public schools*. School districts account for the largest portion of property taxes collected, and they accounted for a large portion of the increase from between TY 2016 and TY 2019.



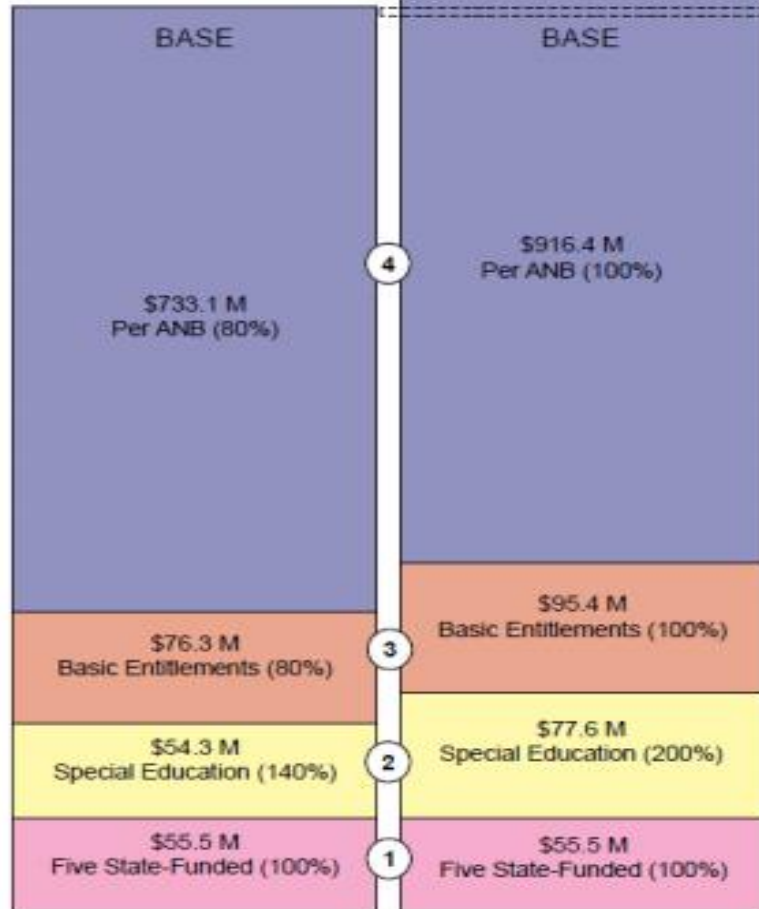
School Funding Basics

- Approximately 43.5% of K-12 revenue comes from state (as of TY 2016) and is distributed to school districts by the Office of Public Instruction (OPI), based largely on number of students in each district (Average Number Belonging or ANB)
- Approximately 44.6% of K-12 revenue comes from local governments
- Approximately 11.9% of K-12 revenue comes from the federal government
- Each school district in Montana establishes a **minimum Basic Amount for School Equity (BASE) budget** and a **maximum (MAX) budget**, based on percentages of certain school funding components. There are exceptions that allow school districts to adopt over-MAX budgets.

School Funding Basics – Legislative Services Division

FY 2018 Statewide District General Fund Budget

Total BASE Budget \$920.3 M
About 80% of Max Budget



Total MAX
Budget
\$1,146.6 M

BASE

\$916.4 M
Per ANB (100%)

\$95.4 M
Basic Entitlements (100%)

\$77.6 M
Special Education (200%)

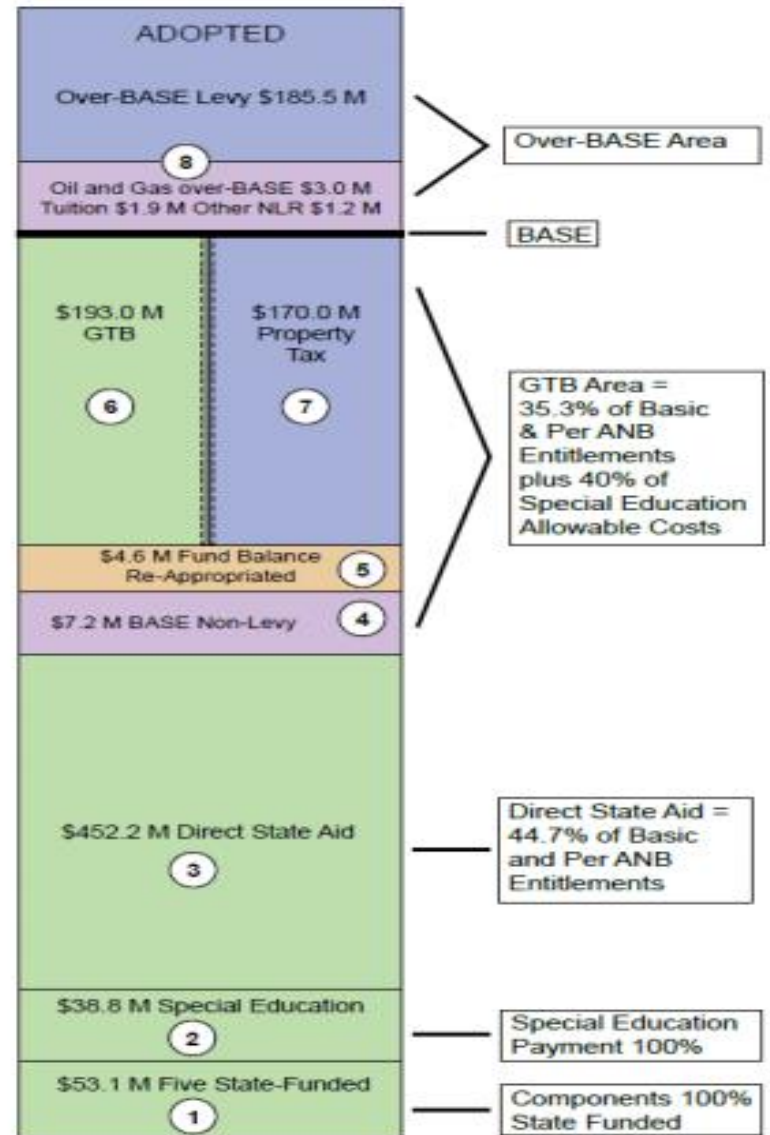
\$55.5 M
Five State-Funded (100%)

District General Fund

The largest school district fund is the general fund. Statewide districts adopted general fund budgets of \$1.1 billion and received \$750 million in state support.

- 4 **Per ANB Entitlement**- Average Number Belonging - A per-ANB dollar amount based on the average count of students attending a district in October and February of the previous school year.
- 3 **Basic Entitlement** - A set amount per district based on whether it is an elementary school district, middle school district, or high school district. Districts with higher enrollment are eligible for additional basic entitlement "increments."
- 2 **Special Education Payment** - an amount per ANB regardless of the count of special education students. Portions of the special education appropriation go to cooperatives and to reimbursements for high-cost students.
- 1 **Five State-Funded Components**
 1. Quality Educator Payment - A per-FTE payment for teachers and other licensed professionals
 2. At Risk Payment - A payment to schools to address at-risk students; or students who are affected by an environment that negatively impacts performance and threatens the likelihood of promotion or graduation
 3. Indian Education For All Payment - A per-ANB payment to fund the constitutionally required education regarding the cultural heritage of the American Indians.
 4. American Indian Achievement Gap Payment - A per-American Indian student payment for the purpose of closing the performance gap that exists between American Indian students and non-Indian students
 5. Data for Achievement - A per-ANB payment used by school districts to pay for costs associated with student data systems

FY 2018
Adopted budget \$1,112.9 M
About 97% of Max Budget

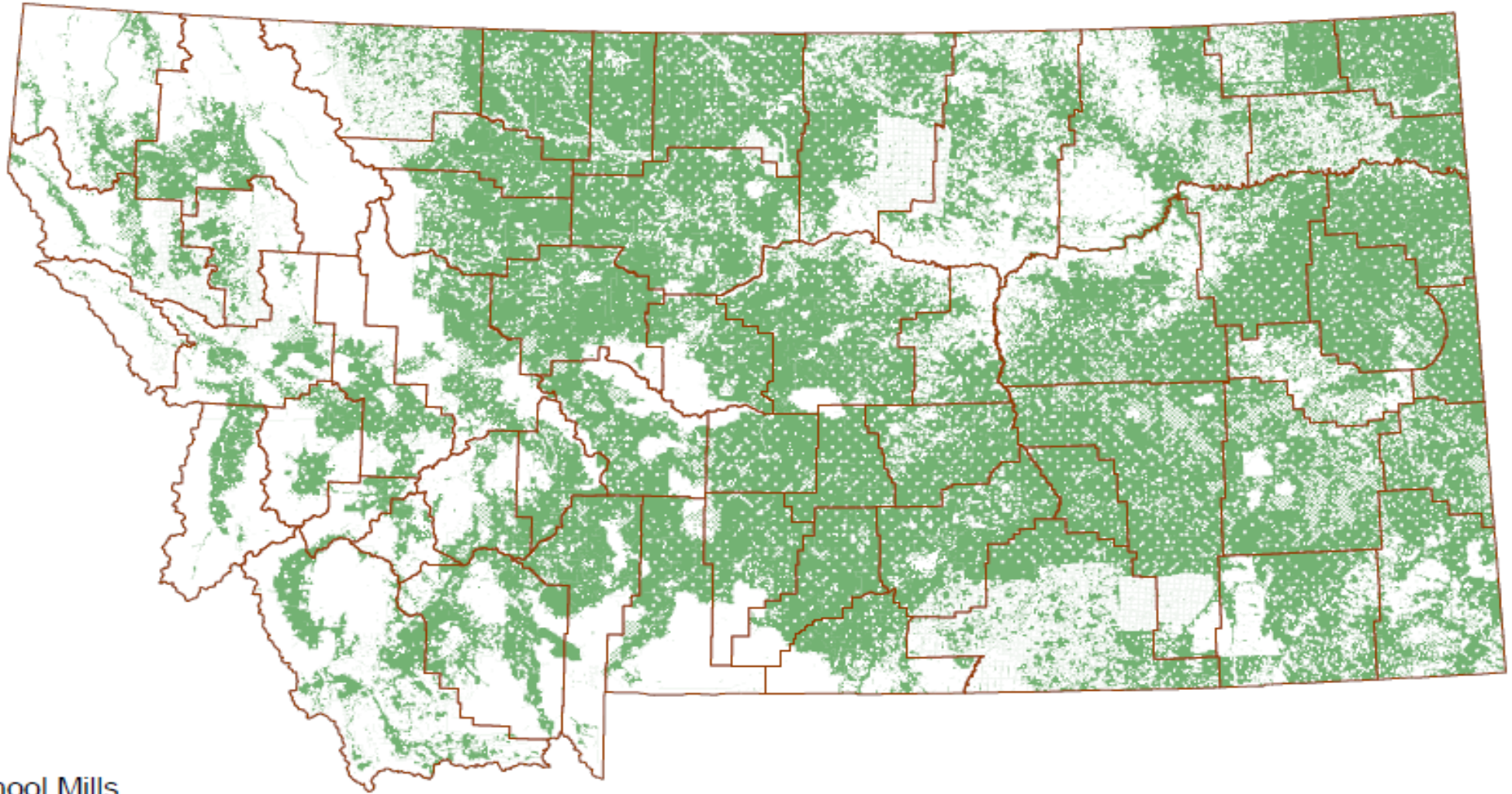


Types of School Mills

Mills levied for schools include the state levy, county-wide school mill levies, required school district mill levies, voted school mill levies, and permissive (non-voted) school mill levies.

- The **state levies 95 mills on all property in Montana**, which go to the state general fund for K-12 school funding
- This state-wide levy is made up of a county equalization levy of 55 mills and a state equalization levy of 40 mills

Statewide School Mills by Levy District



State School Mills

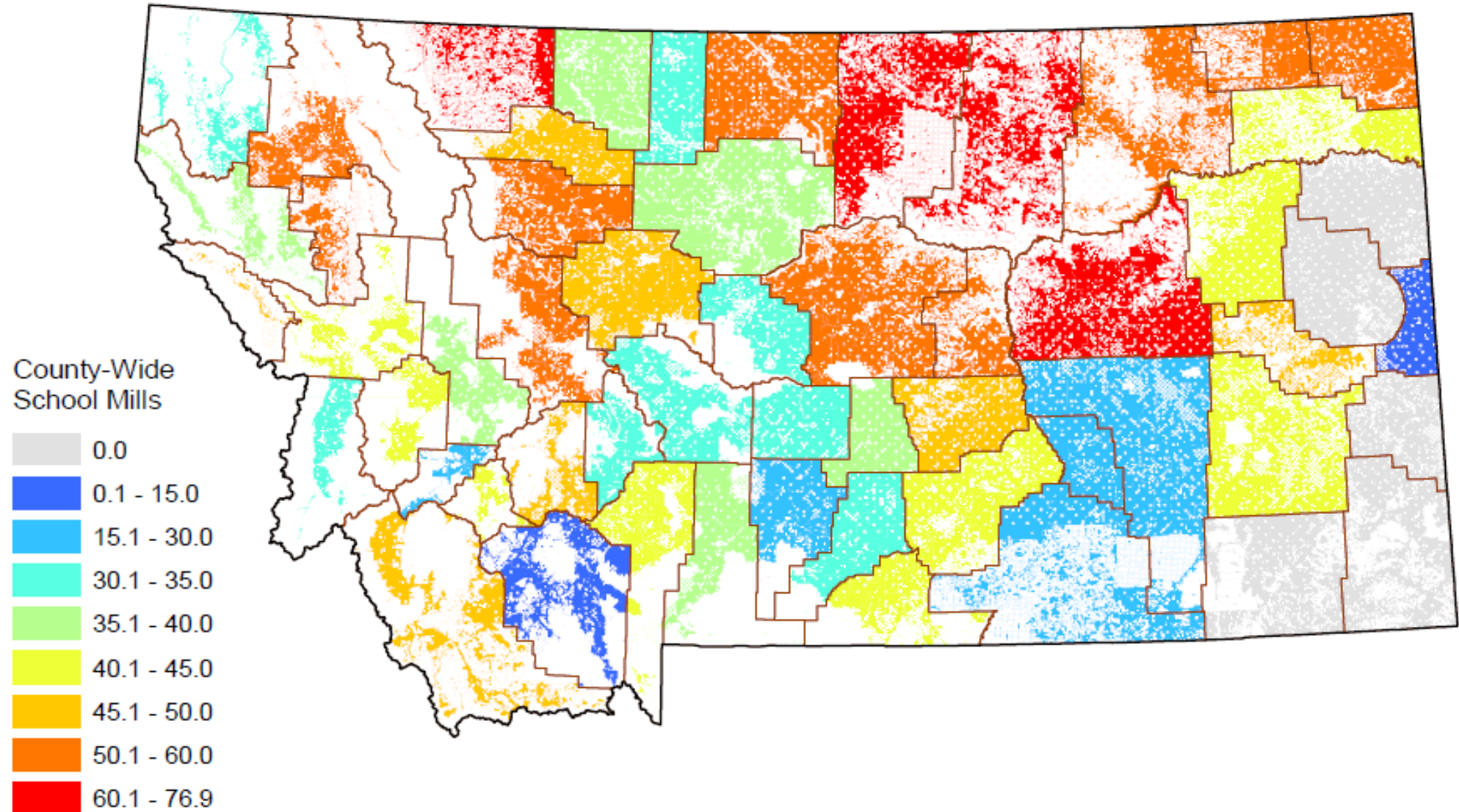
95.0

Types of School Mills

Mills levied for schools include the state levy, county-wide school mill levies, required school district mill levies, voted school mill levies, and permissive (non-voted) school mill levies.

- All county taxpayers support **county-wide school retirement costs and a portion of transportation costs** through county-wide school levies

County-wide School Mills by Levy District

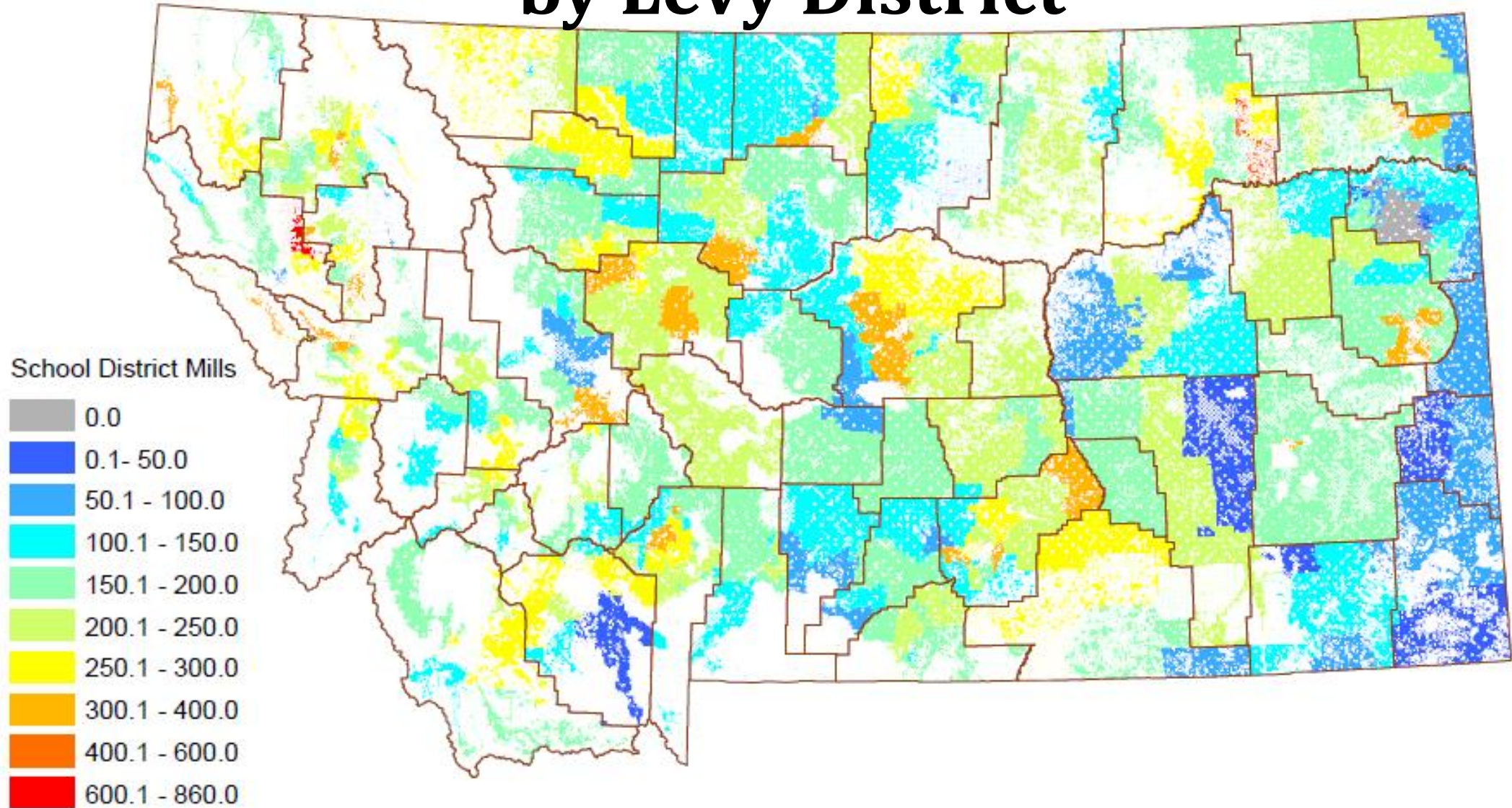


Types of School Mills

Mills levied for schools include the state levy, county-wide school mill levies, required school district mill levies, voted school mill levies, and permissive (non-voted) school mill levies.

- **Each school district also levies a certain number of mills to fund K-12 education within their district.** Most these mills are levied for the school district general fund, but each district also has funds for specific purposes:
 - Transportation (separate from the county-wide transportation levy), bus depreciation, tuition, and adult education funds are permissive (non-voted)
 - Voter approval is required for tax levies in the technology, flexibility, and debt service funds
 - The building reserve fund has both permissive and voted sub-funds

Combined Elementary & High School Mills by Levy District



Property Taxes & Schools

The Montana Constitution guarantees the equality of educational opportunity across the state and requires the legislature to equitably distribute state support for public schools, but there is also a separate issue of tax equity across the state.

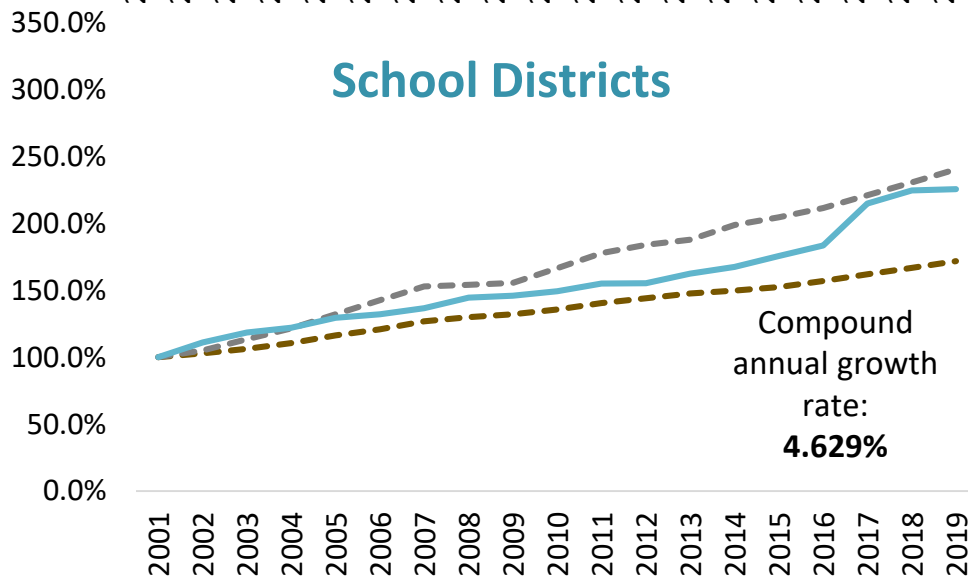
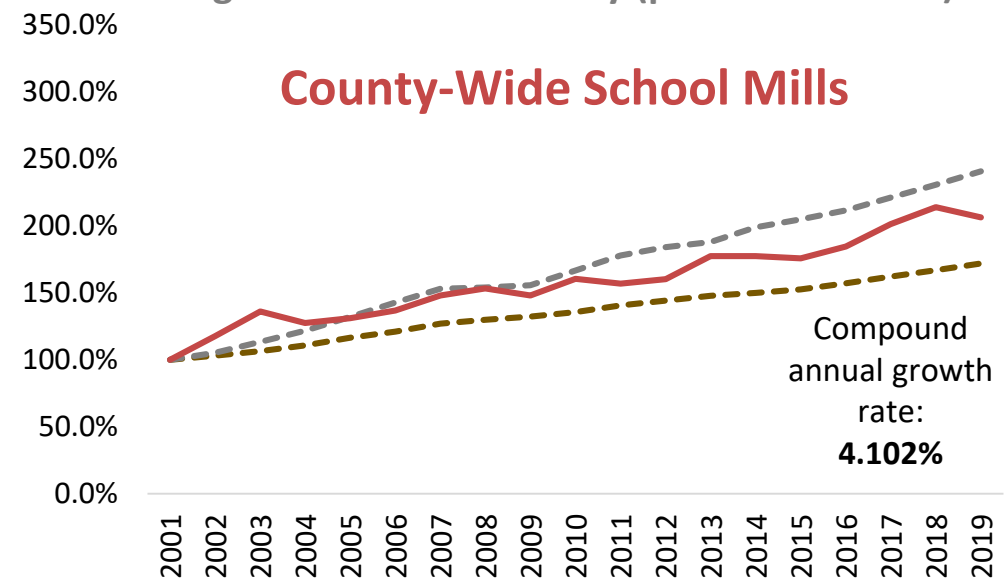
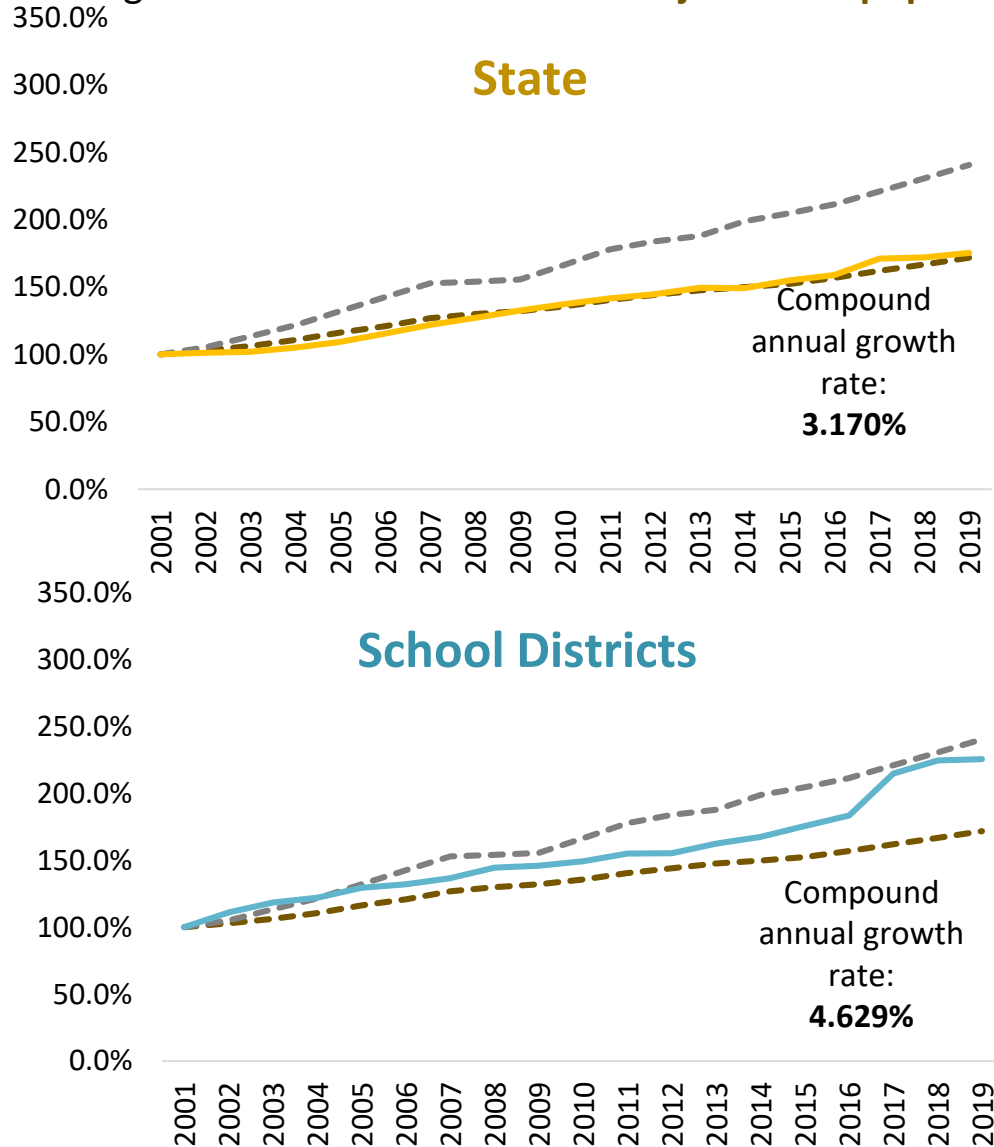
In this presentation, we will look at:

- The reason for an increase in school district mills levied between TY 2016 and TY 2019
- Whether the changes made in HB 647 of the 2017 Legislative Session affected the variability of BASE school district general fund mills between TY 2016 and TY 2019
- Whether there were any changes in over-BASE mills or non-general fund mills between TY 2016 and TY 2019
- How many school districts were operating over-MAX in TY 1999 versus in TY 2019

It is important to note that property tax makes up a large portion of school funding, but it is not the only source.

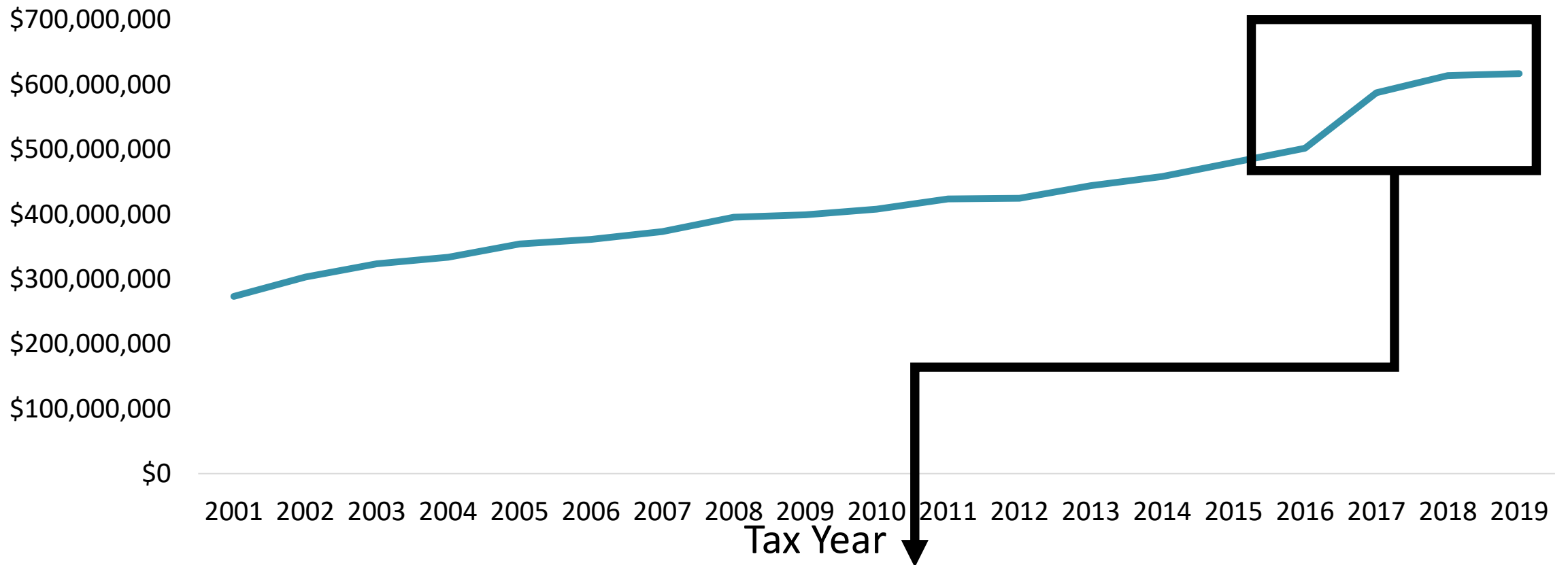
Growth in Property Taxes

Growth in **property taxes paid** since TY 2001 for the **state**, **county-wide school levies**, and **school districts** has generally been greater than that of **inflation adjusted for population** but less than growth in the economy (personal income).

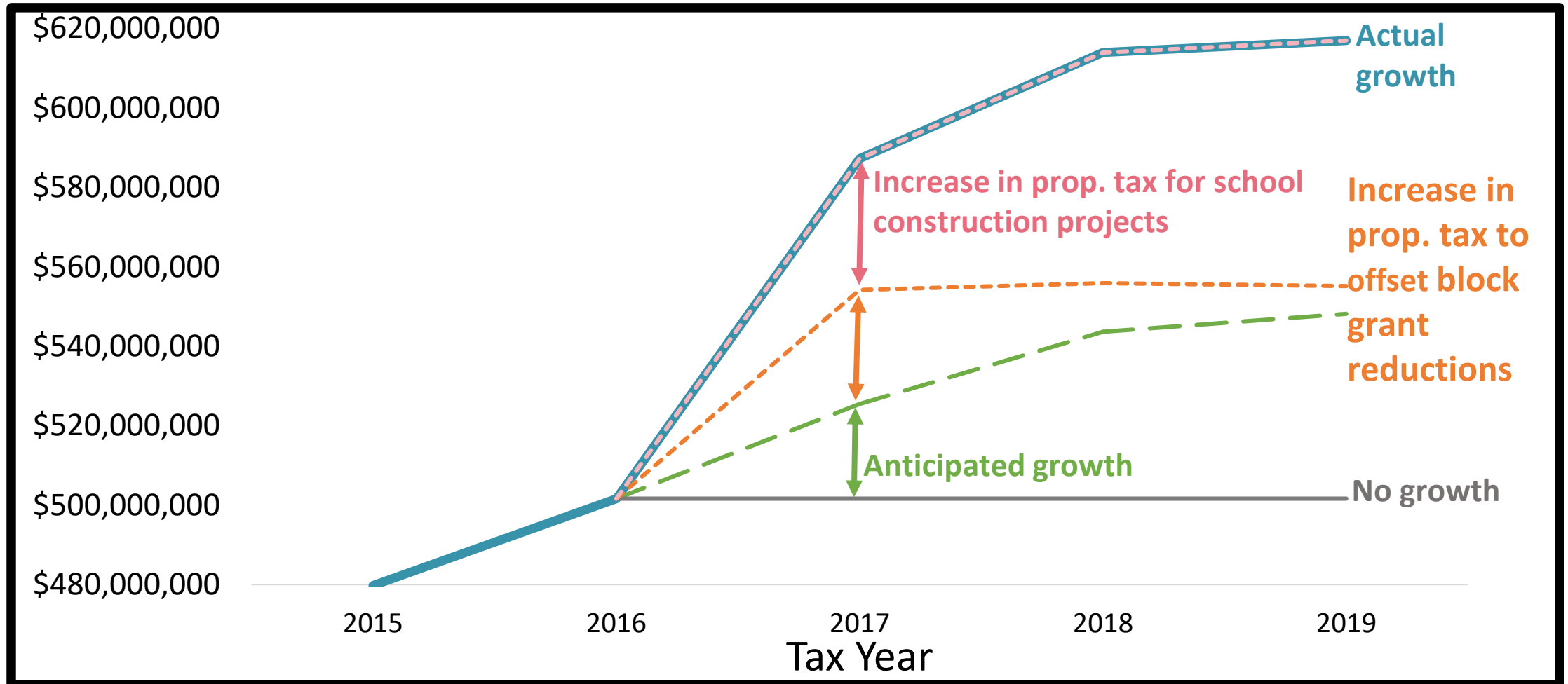


Increase in school district mills levied between TY 2016 and TY 2019

Property taxes paid to school districts have grown 125.8% since TY 2001. However, in TY 2017 there was a spike in growth of property taxes paid to school districts, which amounted to an increase of \$85.6 million above TY 2016. This trend should return to normal by TY 2020 as the amount of GTB aid increases.



Increase in school district mills levied between TY 2016 and TY 2019

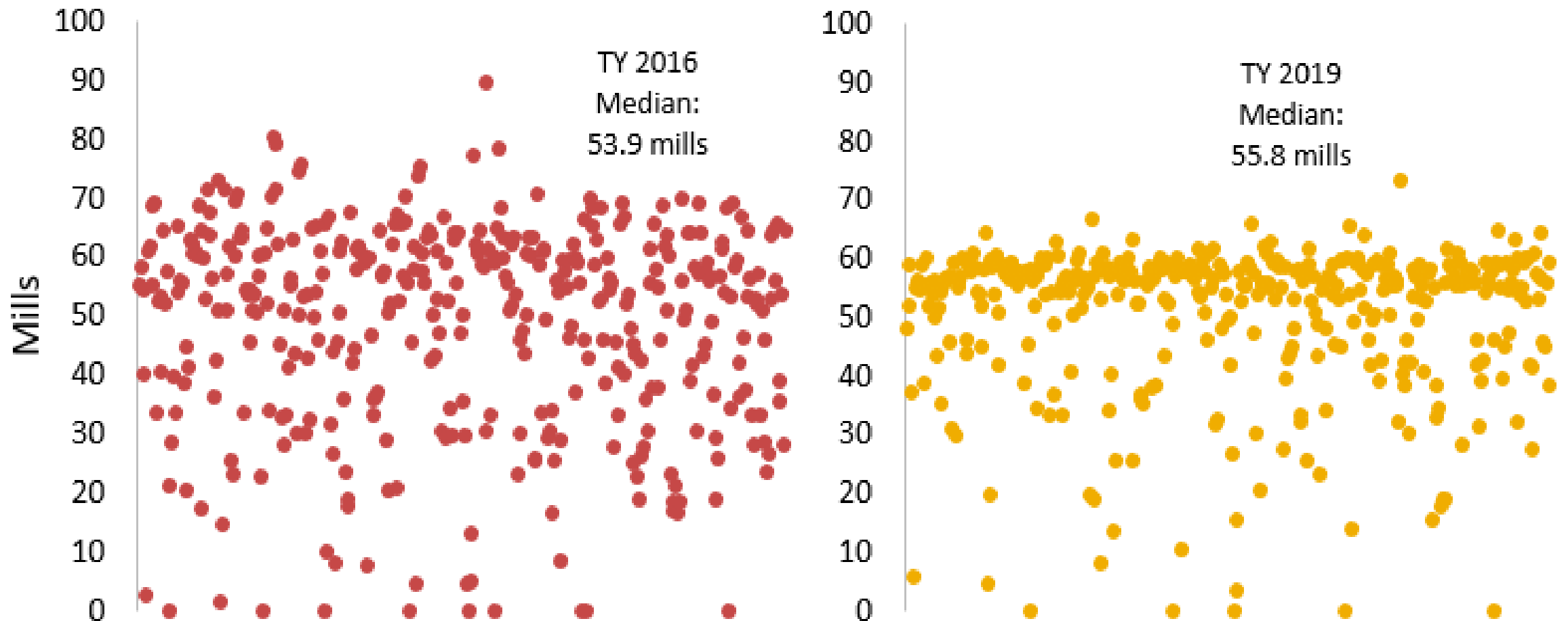


Increase in school district mills levied between TY 2016 and TY 2019

Property Tax Collection Increases for School Districts from TY 2017 - TY 2020				
	TY 2017	TY 2018	TY 2019	TY 2020
TY 2016 Collections (No Growth)	501,637,637	501,637,637	501,637,637	501,637,637
Anticipated Growth	61,726,693	70,293,427	68,758,579	no data yet
General Fund Block Grants	(54,412,104)	(54,412,104)	(54,412,104)	(54,412,104)
Guarantee Tax Base (GTB) Aid	25,691,942	25,652,969	25,615,919	25,608,873
GTB Increase	-	16,500,000	21,800,000	27,100,000
Additional Collections to Offset Block Grant Reduction:	28,720,162	12,259,135	6,996,185	1,703,231
Cascade County	5,502,874	9,008,566	8,495,034	no data yet
Flathead County	7,807,313	10,605,844	10,134,273	no data yet
Gallatin County	576,827	8,060,061	10,443,946	no data yet
Lewis & Clark County	3,541,804	7,741,203	7,713,502	no data yet
Missoula County	8,659,317	8,895,815	8,833,549	no data yet
Yellowstone County	2,899,987	8,799,446	7,467,622	no data yet
All other Montana counties	4,018,409	4,923,356	8,674,468	no data yet
Increase from TY 2016 for School Construction Projects (above that of Anticipated Growth)	33,006,531	58,034,292	61,762,394	no data yet
Actual Property Tax Collections	587,192,594	613,900,481	616,902,277	not enough data

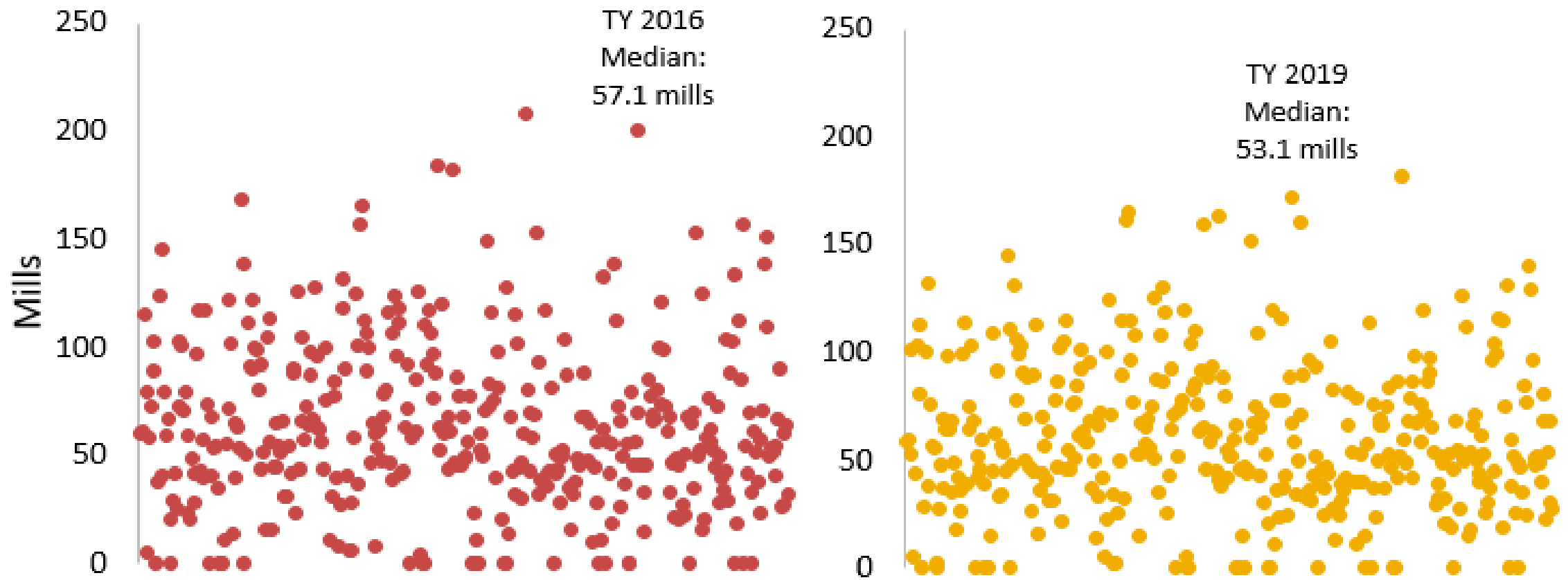
Variability of Mills

Between **TY 2016** and **TY 2019**, the elimination of school district block grants resulted in a greater equalization of **general fund BASE aid school mills** between taxing jurisdictions



Variability of Mills

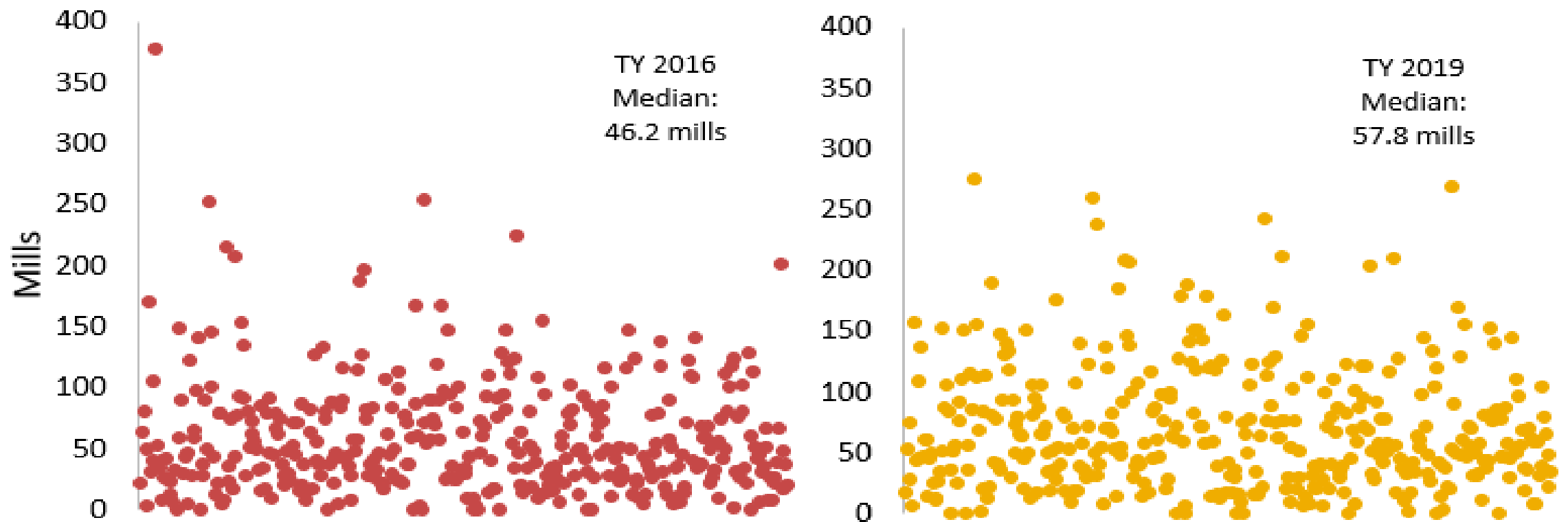
Between **TY 2016** and **TY 2019**, the number of **general fund over-BASE school mills** levied did not change dramatically across taxing jurisdictions



Variability of Mills

Between **TY 2016** and **TY 2019**, the number of **non-general fund school mills** (including debt service, building reserves, tuition, etc.) levied increased overall across taxing jurisdictions, in part due to school construction projects across the state

*Rocky Boy combined elementary & high school district levied 1,083.1 mills in TY 2016 and 798.4 mills in TY 2019 and is not displayed on these charts



Variability of Mills

\$2,000,000,000

\$1,500,000,000

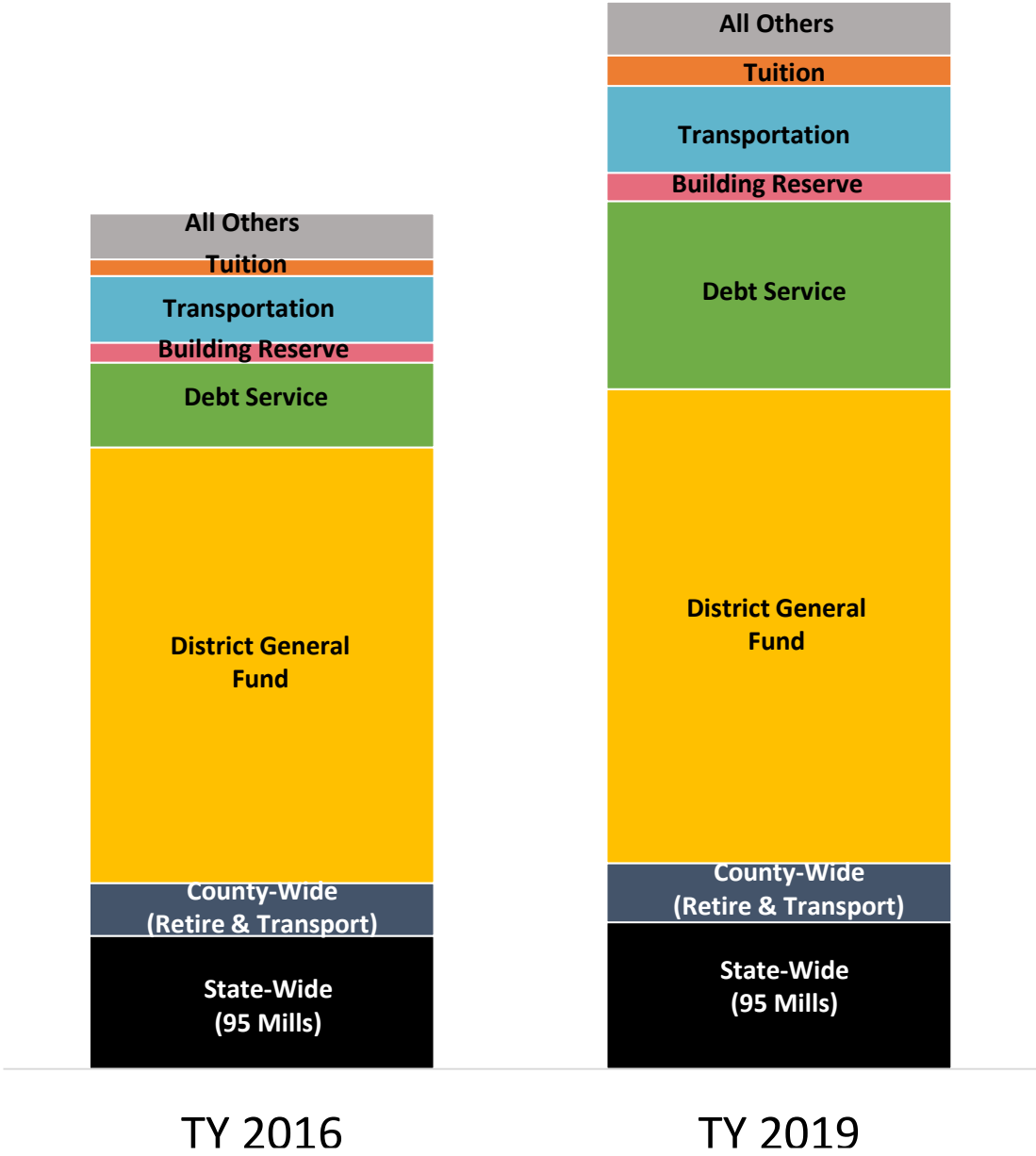
\$1,000,000,000

\$500,000,000

\$0

The majority of **property taxes levied for schools*** are for the **district general fund**, but the largest increase in property taxes for schools between TY 2016 and TY 2019 was for **debt service** due to school construction projects. **All Others** includes levies for bus depreciation, adult education, non-operating districts, technology, and flexibility.

*Note that this graphic includes school funding from the state, counties, & school districts.



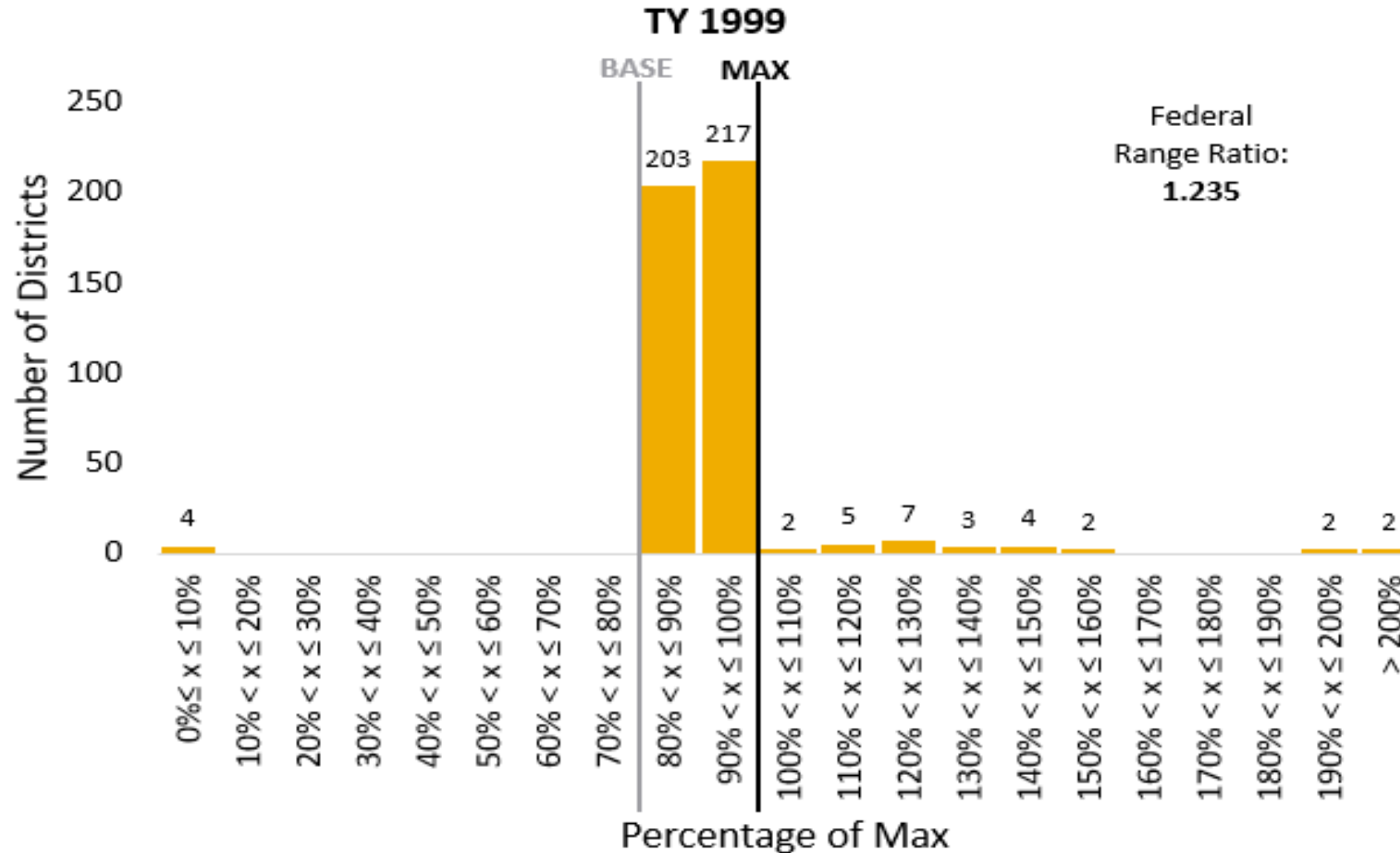
Variability of Mills

- With the elimination of school district general fund block grants for TY 2016 through TY 2019 discussed above, the number of mills levied for general fund BASE aid was more equalized across taxing jurisdictions in Montana
- Though general fund BASE aid mills were more equalized in TY 2019 than in TY 2016, the elimination of block grants did not have the same result for the other types of school mills. The number of general fund over-BASE mills did not change dramatically between TY 2016 and TY 2019
- The number of non-general fund mills include those levied for transportation, bus depreciation, tuition, and adult education, debt service, building reserve, technology and flexibility. The median increased from 46.2 mills in TY 2016 to 57.8 mills in TY 2019, but the overall variability of non-general fund mills did not change dramatically

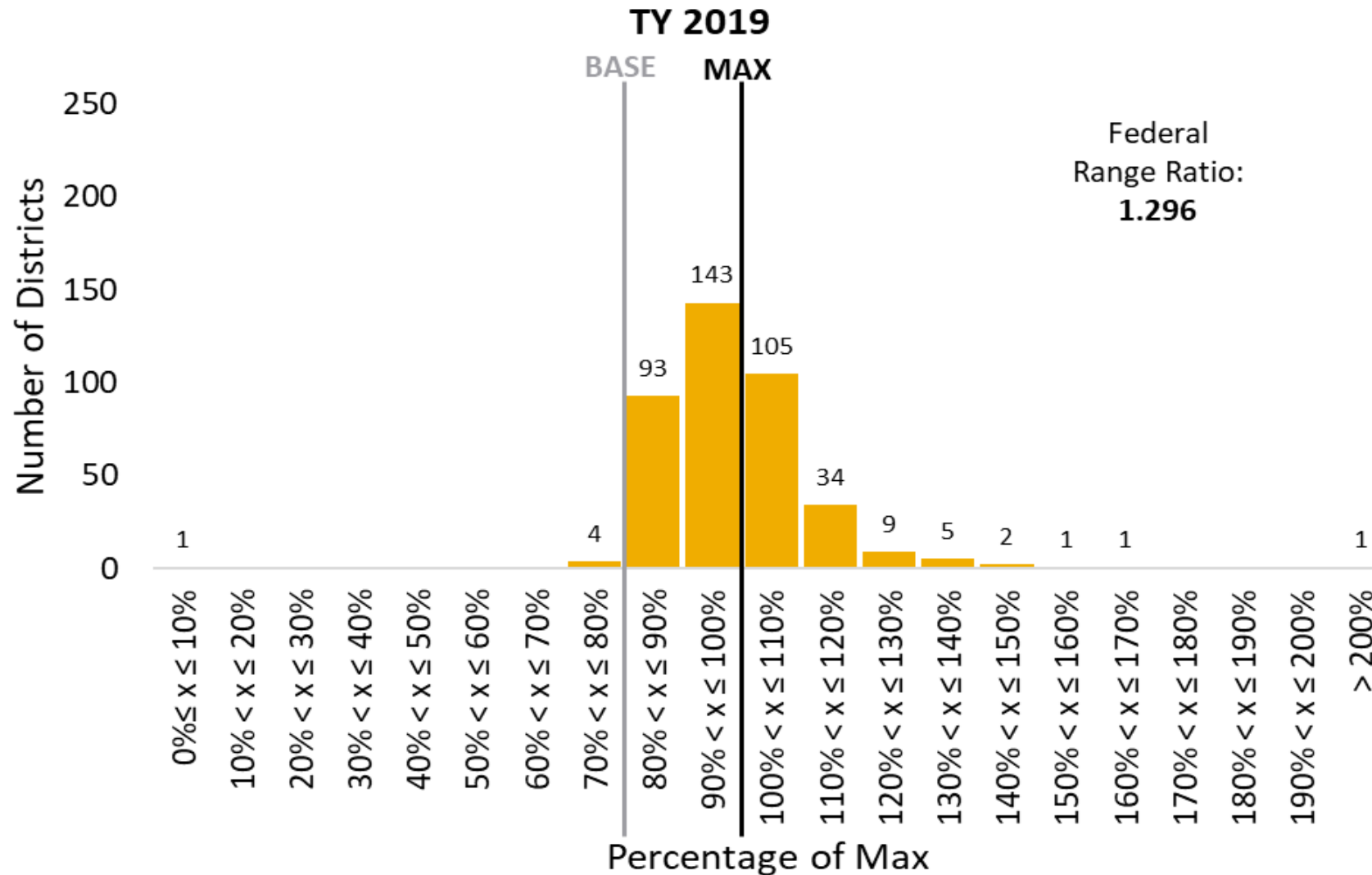
Districts Operating Over Maximum

- Most school districts operate with a budget somewhere in between their BASE and MAX budgets. However, there are a few exceptions that allow school districts to adopt over-MAX budgets.
- The Montana Constitution guarantees the equality of educational opportunity, and that school funding is distributed in an equitable manner. Several different measures can be used to assess equity of school funding; the federal range ratio can be calculated by computing the 95th percentile of funding per pupil and dividing it by the 5th percentile of funding per pupil.

Districts Operating Over Maximum



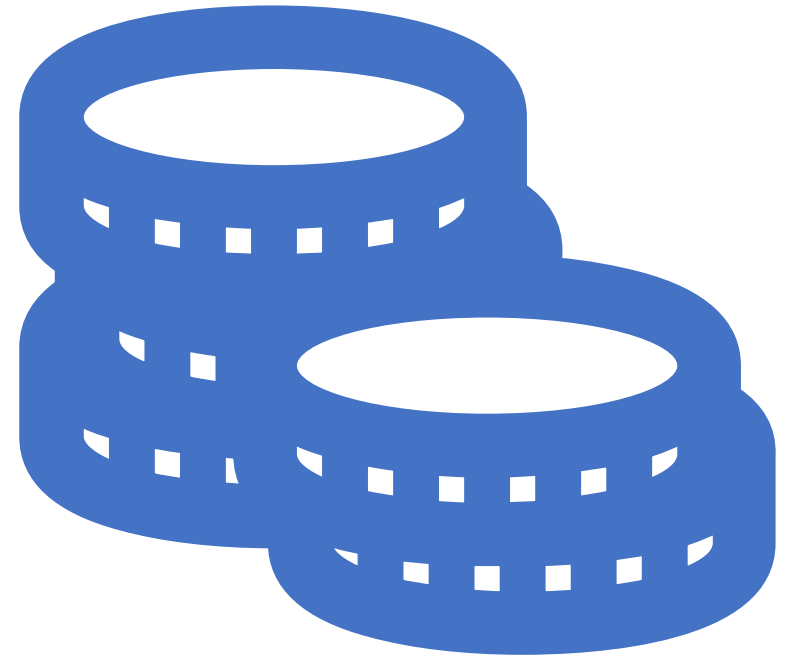
Districts Operating Over Maximum



General Conclusions

- The large increases in school district mills levied between TY 2016 and TY 2019 are due in part to the elimination of school district block grants (per HB 647 in the 2017 Legislative Session), which were replaced partially with GTB funding from the state and partially with increases in school district property taxes. These increases should return to previous averages in TY 2020.
- The other portion of the increase was due to large increases in non-general fund mills for major maintenance projects (funded via the building reserve fund) and new construction projects (funded via the debt service fund).
- The measures implemented by the Montana legislature in HB 647 of the 2017 Legislative Session (the reduction of school district block grants) may have helped to equalize the number of BASE mills levied for public education across the state. Between TY 2016 and TY 2019, the variability in the number of BASE mills decreased substantially. As of TY 2019, the majority of school districts levied approximately 50-60 BASE mills, with a small number of outliers levying a number of mills outside those values.
- However, other types of mills were not affected by the elimination of school district block grants the same way as the BASE mills were. The number of over-BASE general fund mills did not change much between TY 2016 and TY 2019. Non-general fund school mills even increased between TY 2016 and TY 2019, primarily due to increase in mills levied for new construction projects (debt service fund).
- More schools were operating over their MAX budget in TY 2019 than in TY 1999. The percentage of difference between funding at the high end of the distribution of per-pupil funding compared to the low end increased over the past two decades, indicating there may be a growing disparity in per-pupil funding across the state of Montana.
- **While schools are a constitutionally required service, the variance in the number of mills paid across the state for this service varies substantially.**

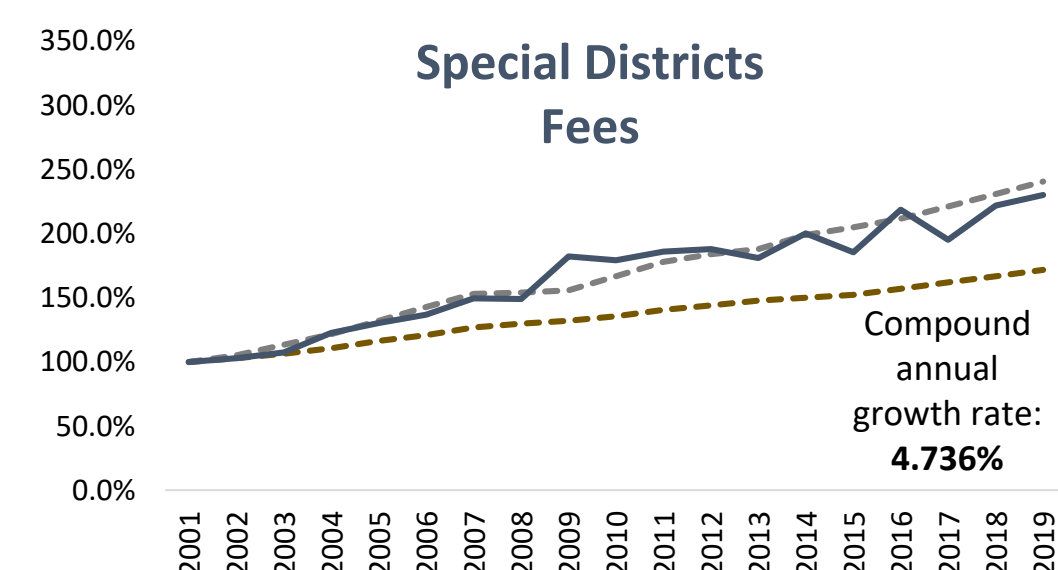
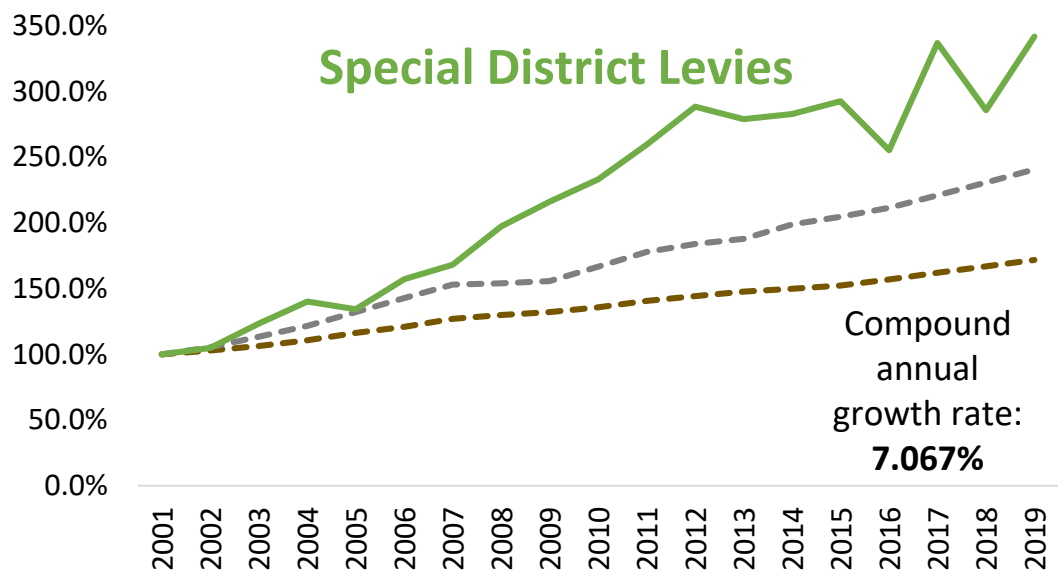
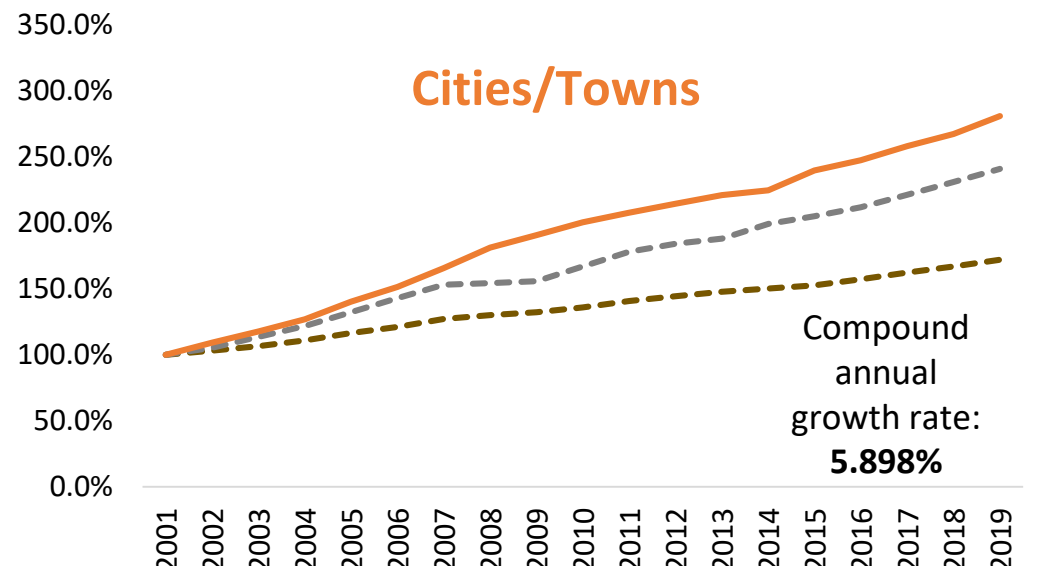
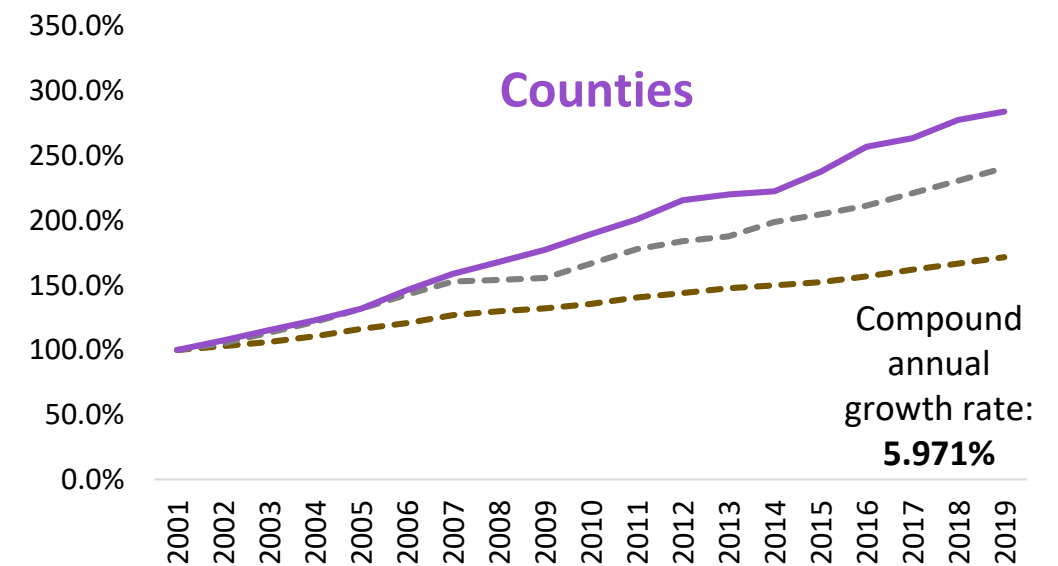
Questions?



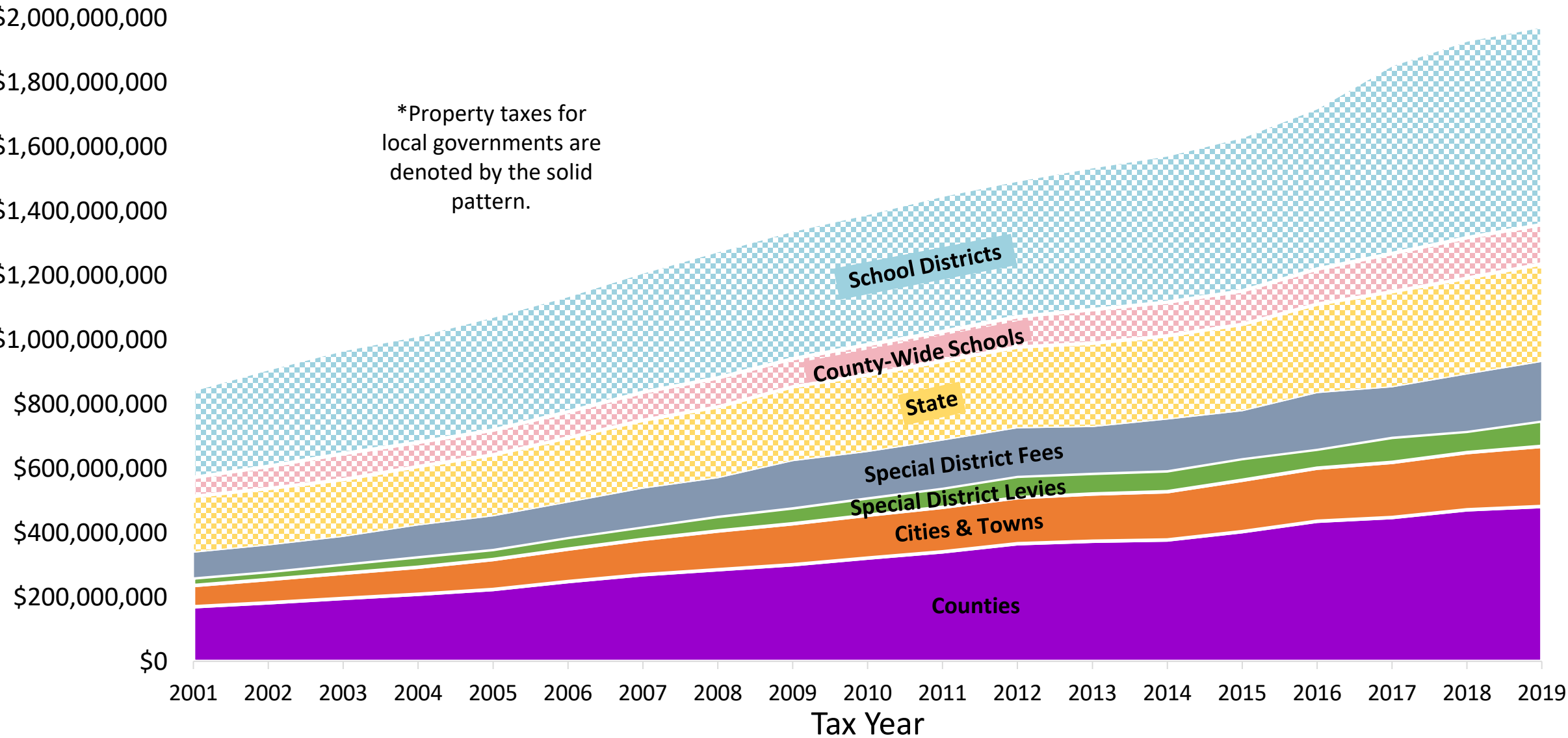
Moving Forward: Local Governments & Property Taxes

For the next MARA committee meeting, the LFD will be presenting a report on local governments and property taxes.

Growth in **property taxes paid** since TY 2001 as compared to growth of **inflation adjusted for population** and growth in the economy (personal income).



Growth in **property taxes collected** since TY 2001 is a combination of growth in property taxes paid to local governments* and to public schools. Special district levies account for the smallest portion of property taxes collected, but they had the largest compound annual growth rate from TY 2001 to TY 2019.

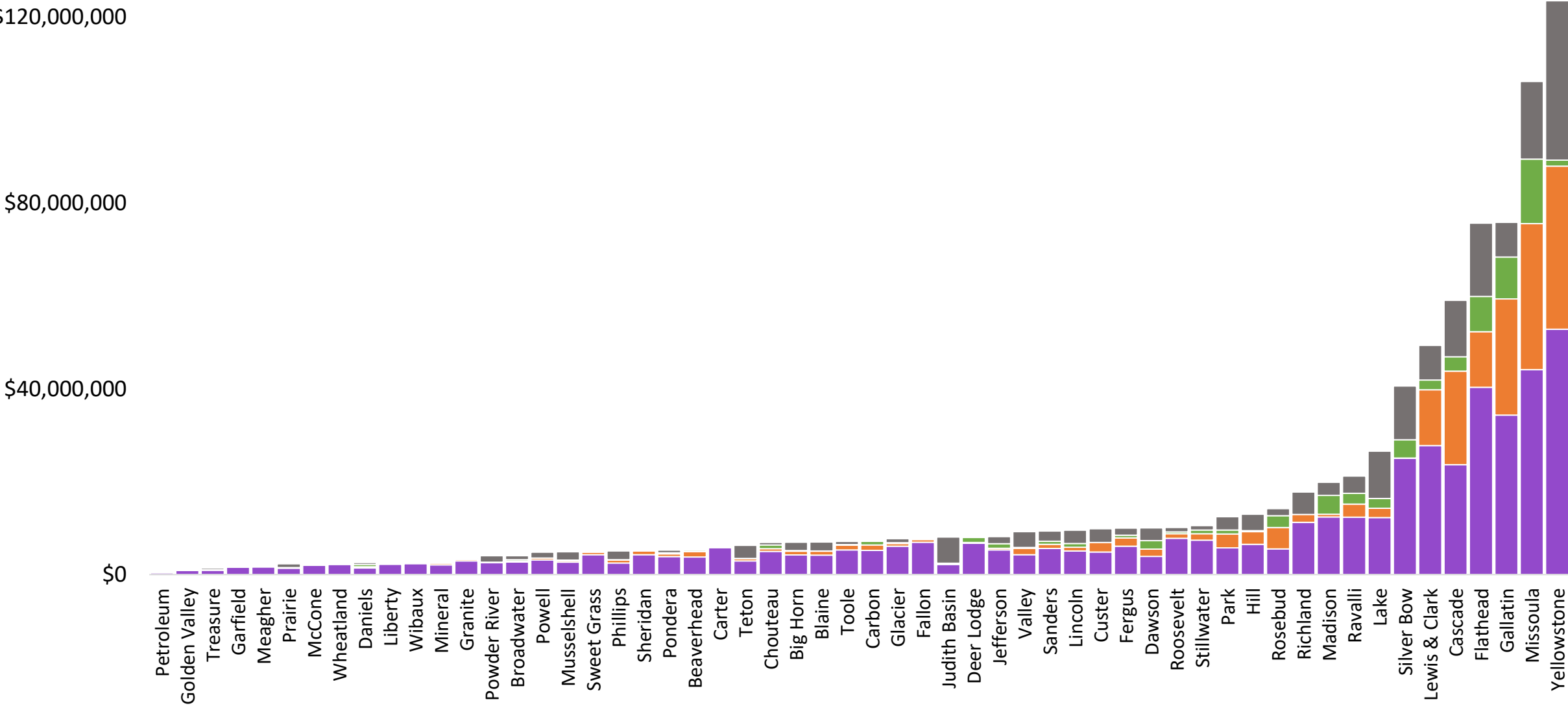


Growth in Property Taxes Collected by Entity

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Overall Compound Annual Growth Rate for Property Taxes - 4.829%

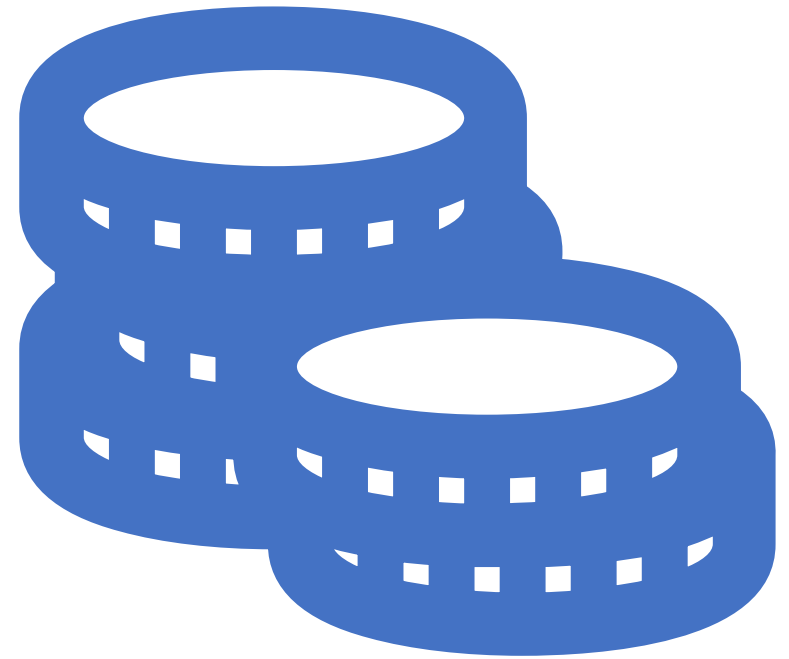
For most counties in Montana, the majority of **local government property tax revenue** in TY 2019 was collected by the **counties**. The amounts collected by the **county**, **cities**, **special district levies**, and **special district fees** vary from county to county.

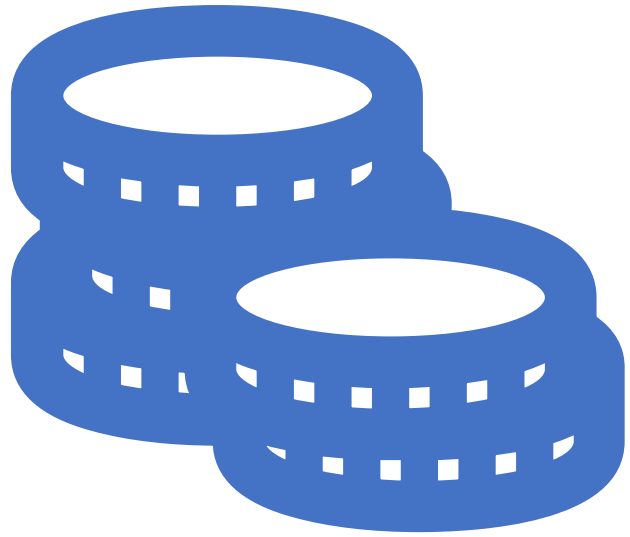


Level of Detail

<p><u>Counties</u></p> <ul style="list-style-type: none"> • Agricultural Extension • Airports • Bond Interest • Bridges • County Fair • District Court • Entitlement • General Health and Sanitation • Hospital • Library • Planning • Public Safety • Roads • Senior Citizens • Weed Control • Other 	<p><u>Special Districts – Levies & Fees</u></p> <ul style="list-style-type: none"> • Airports • Bonds/Loans • Cemeteries • Conservation • Fire • Flooding • Hospitals and Ambulances • Libraries • Lighting • Maintenance • Mosquito Control • Parks • Roads/Streets • Soil Districts • Water and/or Sewer • Zoning • Other 	<p><u>Cities/Towns</u></p> <p>The system generally lumps all city mills into one group.</p> <p>However, working with local governments, it may be possible to use the data on special districts to determine which special district mills and fees are levied and charged within cities & towns.</p>
<p>TY 2001 – TY 2019</p>	<p>TY 2019 ONLY</p>	

What other
questions are
of interest to
the committee?





School Funding Basics

Approximately **43.5% of K-12 revenue comes from state** (as of TY 2016) and is distributed to school districts by the Office of Public Instruction (OPI), based largely on number of students in each district (Average Number Belonging or ANB).

- **State general fund revenue**— approximately \$300.0 million from the 95 mill property tax levy and another \$500.0 million in state general fund
- **Retirement funding**—\$50.0 million annually from the state general fund directly to the teachers retirement system (TRS) and public employees retirement system (PERS), and approximately \$40.0 million annually to counties as part of guaranteed tax base (GTB) aid to support eligible counties in funding school district retirement budgets
- **The guarantee account**— this state special revenue account receives earnings off of the Common School Permanent Trust and revenue generated on the state common school trust lands. When more revenue is available in the guarantee account, less state general fund is required, and vice versa. The guarantee account receives approximately \$50.0 million each year, but the amount can vary

School Funding Basics

Approximately **44.6% of K-12 revenue comes from local governments** (as of TY 2016).

- **Local property tax levies**— including required levies, voted mills, and permissive (non-voted) levies by the school districts and counties. All county taxpayers also support county-wide school retirement costs and certain transportation costs through permissive county-wide levies
- **Local non-levy revenue (NLR)**— NLR includes certain natural resource revenues and tuition payments
- **Fund balance re-appropriated**— the difference between the end-of-year fund balance and the amount reserved for operations. It must be used to fund the next year's budget. The maximum amount of fund balance that may be re-appropriated to the general fund budget is limited to 15.0% of the ensuing year's maximum general fund budget

School Funding Basics

Approximately **11.9% of K-12 revenue comes from the federal government** (as of TY 2016). Federal revenue for education comes from four main programs:

- **Impact Aid Funding**— federal funding for federally-connected children whose families live or work on nontaxable federal land (tribal land, forest land, national parks, military bases, etc.)
- **School Food Funding**— federal funding for school lunches from the U.S. Department of Agriculture (USDA)
- **Individuals with Disabilities Education Act (IDEA) Funding**— federal funding for the education of children with disabilities
- **Title I Funding**— federal funding for schools with high percentages of low-income students

K-12 School Budgets

Each school district in Montana establishes a **minimum Basic Amount for School Equity (BASE) budget** and a **maximum (MAX) budget**, based on percentages of certain school funding components.

- **The five fully state-funded components:**
 - **Quality Educator Payments**— a per-FTE payment for teachers and other licensed professionals
 - **At-Risk Payments**— a payment to schools to address at-risk students
 - **Indian Education for All Payments**— a per-ANB payment to fund the constitutionally required education regarding the cultural heritage of American Indians
 - **American Indian Achievement Gap Payments**— a per-American Indian student payment to help close the performance gap that exists between American Indian students and non-Indian students
 - **Data for Achievement Payments**— a per-ANB payment used by school districts to pay for costs related to student data systems

K-12 School Budgets

Each school district in Montana establishes a **minimum Basic Amount for School Equity (BASE) budget** and a **maximum (MAX) budget**, based on percentages of certain school funding components.

- **Special Education Payments**— a per-ANB payment, regardless of the number of special education students
- **Direct State Aid**
 - **Basic Entitlements**— a per-district payment, based on whether it is an elementary district, middle school district, or high school district
 - **Per-ANB Entitlements**—a per-ANB payment based on the count of students attending school in the district
- **Guaranteed tax base (GTB) funding**— GTB payments help equalize differences in revenue generating capacity between school districts with different property tax bases

K-12 School Budgets

The process for establishing a budget is as follows:

1. The BASE budget is calculated as 100.0% of the five fully state-funded components, 140.0% of the special education allowable costs payment, 80.0% of basic entitlement payments, and 80.0% of per-ANB payments.
2. The MAX budget is calculated as 100.0% of the five fully state-funded components, 200.0% of the special education allowable costs payment, 100.0% of basic entitlement payments, and 100.0% of per-ANB payments.
3. Each district adopts a district general fund budget of at least BASE, and with some exceptions, no more than MAX. The BASE portion of the adopted budget is funded first with 100.0% of the five fully state-funded components, 100.0% of the special education allowable costs payment, 44.7% of the basic entitlements, and 44.7% of the per-ANB payment.
4. The remaining portion of the BASE budget (40.0% of the special education allowable costs payment, 35.3% of the basic entitlements, and 35.3 % of the per-ANB payment) is funded with a combination of non-levy revenue, fund balance re-appropriated, and local property tax required levies.
5. If the remaining portion of the BASE budget is still not met, a district may qualify for GTB aid. GTB provides a per-mill subsidy that brings a district's revenue-generating capacity (as a ratio of property wealth/mill value to funding need) up to a statewide guarantee.
6. Local school district trustees determine the final adopted budget between BASE and MAX, and the school funding formula dictates how that budget is funded.
7. There are exceptions that allow school districts to adopt over-MAX budgets.